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PACIFIC PETROLEUMS LTD. 1969 ANNUAL REPORT

*Pacific
Petroleum
Ltd.*

22nd ANNUAL REPORT
1961



PACIFIC
PETROLEUMS
LTD
ANNUAL
REPORT
1966



annual
report
1965

PACIFIC PETROLEUMS LTD.



PACIFIC PETROLEUMS LTD.
Annual Report 1964

PACIFIC PETROLEUMS LTD. / Annual Report 1968

*Pacific
Petroleum
Ltd.*

21st ANNUAL REPORT
1968

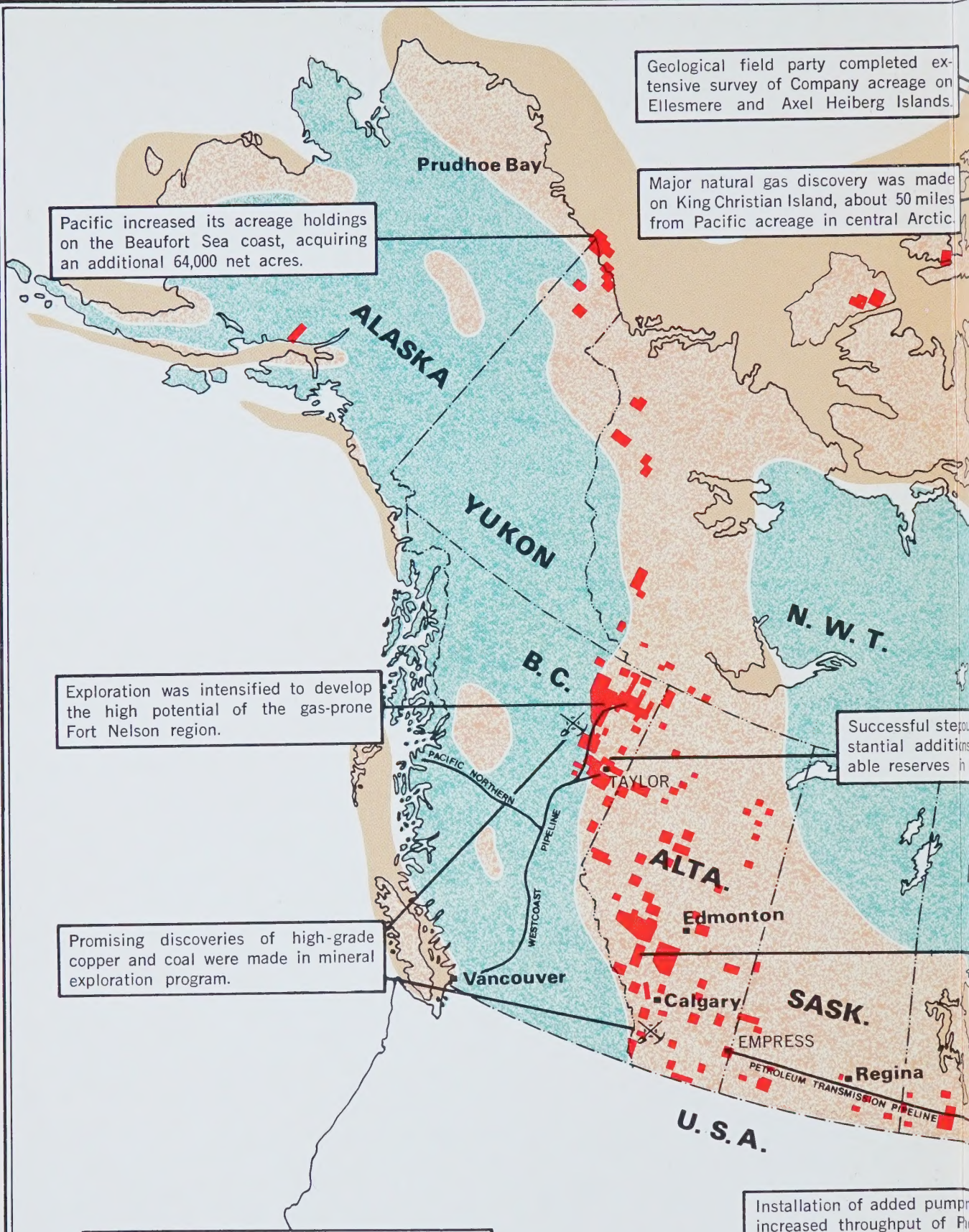
PACIFIC
PETROLEUMS
LTD.

24th Annual Report
1962



PACIFIC PETROLEUMS LTD.
25th Annual Report
1963

PACIFIC PETROLEUMS LTD.
1970 ANNUAL REPORT

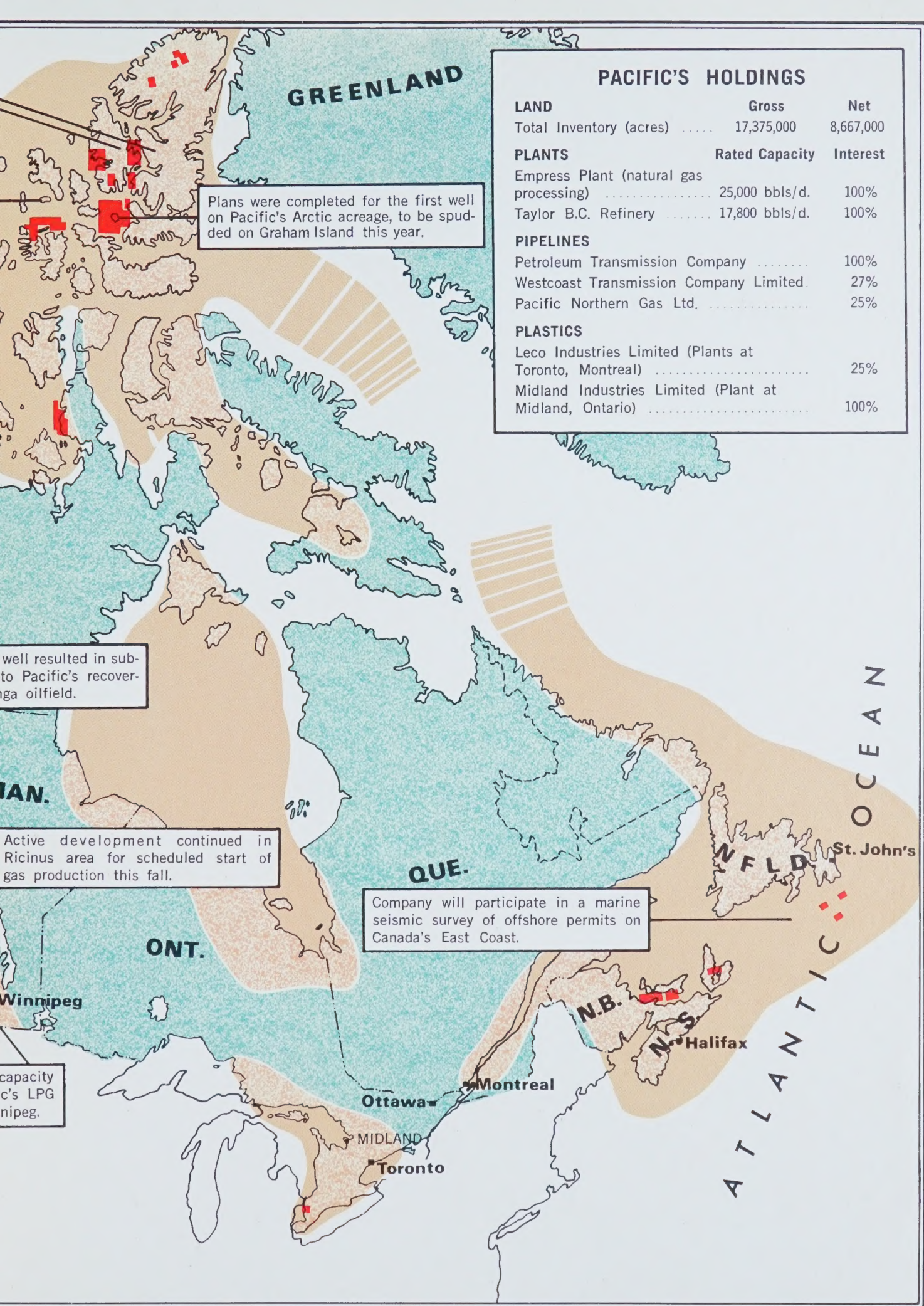


LEGEND

- PACIFIC LAND HOLDINGS
- MINERAL EXPLORATION SITE
- SEDIMENTARY BASIN AREA

SCALE IN MILES

100 50 0 100 200 300 400 500



Plans were completed for the first well on Pacific's Arctic acreage, to be spudded on Graham Island this year.

well resulted in sub-surface recovery to Pacific's recoverable oilfield.

Active development continued in Ricinus area for scheduled start of gas production this fall.

Company will participate in a marine seismic survey of offshore permits on Canada's East Coast.

capacity
c's LPG
nipeg.

PACIFIC'S HOLDINGS

LAND	Gross	Net
Total Inventory (acres)	17,375,000	8,667,000
PLANTS	Rated Capacity	Interest
Empress Plant (natural gas processing)	25,000 bbls/d.	100%
Taylor B.C. Refinery	17,800 bbls/d.	100%
PIPELINES		
Petroleum Transmission Company		100%
Westcoast Transmission Company Limited		27%
Pacific Northern Gas Ltd.		25%
PLASTICS		
Leco Industries Limited (Plants at Toronto, Montreal)		25%
Midland Industries Limited (Plant at Midland, Ontario)		100%

PACIFIC PETROLEUMS LTD.

ANNUAL REPORT FOR YEAR ENDED DECEMBER 31, 1970

A DYNAMIC DECADE

The cover illustration is a montage of annual reports issued through the 1961-70 decade, a period which, in retrospect, stands out as the most significant phase of our corporate history. It began with Pacific's acquisition in December, 1960, of the Canadian properties of the Phillips Petroleum and Sunray Oil companies. Within a year after this transaction, Pacific's sales reached the \$20,000,000 level for the first time and the Company emerged from a perennial deficit position to show a profit of slightly more than \$1,000,000.

These past annual reports have chronicled the continuing progress of the Company through the intervening years. This 1970 report records the culmination of this dynamic decade, which sees Pacific's revenues grown to more than \$100,000,000 per year and its annual earnings at a new high of \$16,961,000.

HIGHLIGHTS OF THE YEAR

Financial	1970	1969	Increase
Total Revenues	\$100,330,000	\$ 88,455,000	13 %
Cash Generated	36,499,000	31,858,000	15 %
Per Share	1.73	1.52	
Net Operating Profit	16,961,000	14,564,000	16 %
Per Share80	.70	
Cash Dividend	6,373,000	5,237,000	20 %
Per Share30	.25	
Shareholders' Equity	281,859,000	263,726,000	7 %
Per Share	13.27	12.59	
No. of Shareholders	42,747	41,907	
Shares Outstanding	21,243,575	20,949,245	
Production			
Crude Oil & Liquids (bbls/day)	52,700	47,100	12 %
Natural Gas (mcf/day)	377,000	341,000	11 %
Sales			
Gasolines & Distillates (gals.)	147,605,000	131,727,000	12 %
Natural Gas Liquids (gals.)	364,019,000	302,068,000	21 %

TO THE SHAREHOLDERS:

In 1970, for the tenth consecutive year, Pacific Petroleum set new records in total revenues, net profit and cash generation.

Revenues in the past year totalled \$100,330,000. This was a gain of \$11,880,000 over 1969 and it was the first time in Company history that annual revenues exceeded the \$100,000,000 level.

Net operating profit in 1970 was 16% higher than the previous year, amounting to \$16,961,000, or 80¢ per share. This compared with a 10% profit increase and net earnings equivalent to 70¢ per share in 1969.

The Company's cash generation in 1970 was \$36,499,000, or \$1.73 per share, a 15% advance over the comparable figures of \$31,858,000, or \$1.52 per share, in the previous year.

In view of the Company's increased earnings, and the other gains summarized in the Highlights of the Year on the preceding page, the Board of Directors voted a 20% increase in the dividend rate, raising the payment from 25¢ to 30¢ per share. This increase, the second in the past three years, resulted in distribution of 37% of the 1970 net profit, the highest proportion of its earnings paid to shareholders since the Company initiated a dividend policy in 1967.

The future prospects of the Company are excellent, particularly in the favorable conditions now prevailing in the Canadian petroleum industry. Restrictions have been eased on Canadian oil exports to the United States and, since last December, a long-overdue increase of 25¢ per barrel has been in effect in the field price of Canadian crude. The new export licences granted last October by the National Energy Board have opened the way for a 25% increase in Canadian natural gas production and, in the resulting competition for available supplies, gas prices in new contracts already have risen as much as 1¢ per 1,000 cubic feet. The demand for natural gas liquids has surged to an all-time high and prices are now 20% above levels of a year ago. All these developments, in the product areas where Pacific is most active, provide opportunities for increased production and profit in 1971.

The several executive changes made during the past year are recorded on Page 17 of this Report. Particular attention is drawn to the resignation from the Board of Mr. John Anderson, upon his taking office as a Director and Officer of Westcoast Transmission Company Limited. Pacific acknowledges Mr. Anderson's many contributions during his years of service as a Director and Officer of this Company.

It is noted on the cover and elsewhere in this Report that 1970 was a landmark year in Pacific's corporate history, the climax of a decade of unprecedented growth. Entering a new decade, it is Management's objective to sustain and, wherever possible, to accelerate the momentum of these recent years. With the high potential of Pacific's properties, the capabilities and dedication of its employees, and the continued support of its customers and shareholders, we are confident that this objective can be achieved.

For the Board of Directors,



KELLY H. GIBSON



L. MERRILL RASMUSSEN

L. Merrill Rasmussen
President.

Kelly Gibson
Chairman of the Board,
Chief Executive Officer.

FINANCIAL REVIEW

The Company experienced an excellent year in 1970 in all phases of its operations resulting in a consolidated net profit of \$16.9 million, or 80¢ per share. This profit represents a 16% gain over 1969 when the comparable operating profit was \$14.6 million, or 70¢ per share.

Cash generated from operations was increased significantly from \$31.8 million, or \$1.52 per share in 1969 to \$36.5 million, or \$1.73 per share in 1970, an increase of 15%.

For the year 1970, total revenues exceeded \$100 million for the first time when they reached \$100,330,000. Sales from various segments of the Company's business followed the same pattern as in 1969 with crude oil sales accounting for 26%, natural gas sales for 19%, and refined products, including gasoline, distillates, condensates and L.P.G.'s, for 55%.

The final quarter of 1970 was an exceptionally good one when net profits of \$5.9 million were recorded, representing a 22% increase over the fourth quarter of 1969. Cash generated per share increased by 20% during the same period, rising from 45¢ per share in 1969 to 54¢ per share in 1970.

Source and Application of Funds

The Consolidated Statement of Funds shows that funds from all sources totalled \$52.4 million in 1970 of which \$7.3 million resulted from the issuing of Pacific shares in connection with the exchange for 338,682 shares of Westcoast Transmission Company Limited stock. Pacific's holdings in this major Canadian gas transmission system now total 1,838,682 shares representing 27% of the equity of that company. Dividends received from Westcoast Transmission in 1970 contributed over \$800,000 to the investment income of the Company. The year-end market value of this investment, which cost \$17.6 million, was \$37.7 million. Cash generated from operations was \$36.5 million and was the principal source of funds. Long-term borrowing amounted to \$4.4 million and the sale of sundry assets, including the disposal of a portion of a working interest in certain Arctic Islands properties, contributed \$4 million. Capital commitments of \$26 million were undertaken, including expenditures on exploration and development of oil and gas properties.

Long-term debt repayments required \$15 million and the payment of a dividend representing 30¢ per share totalled \$6.4 million. The \$7.3 million recorded as purchase of investments includes the transaction involving the exchange of shares for Westcoast Transmission stock discussed above and referred to in Note 4 to the Financial Statements.

Profitability Improvement

A significant trend in our financial results is shown on the charts in the relationship between net profit and total revenue. These figures show that our profit as a percentage of sales rose from 11% in 1966 to 17% in 1970.

Many factors have contributed to this improvement in the profitability of our operations but one of the most important of these is the successful cost control program being maintained throughout the Company's operations. Despite inflationary pressures, this program has not only checked rising costs but actually has effected a slight reduction in operating expenses in recent months.

Sales Realization

An analysis of the main segments of the Company's business operations in 1970 indicate unit sales realization as tabulated below:

Crude Oil	\$2.53/Bbl.
Natural Gas	13.6¢/Mcf.
LPG's (Empress Plant)	\$1.72/Bbl.
Refined Products	\$6.67/Bbl.

The sales realization from the two main business segments, crude oil and natural gas, will increase in 1971. A price increase of 25¢ per barrel for Canadian crude was announced in December, 1970. Price escalation provisions in existing natural gas sales contracts and new gas contracts at higher prices are due to come into force later this year.

Exchange Savings

The Canadian dollar was unpegged on May 31, 1970, and the current rate of exchange is

A DECADE IN REVIEW

The tremendous growth of the Company in the past decade is shown on these charts. In this period, aggregate revenues were more than \$570 million, cash generated from operations exceeded \$220 million, and net profits totalled \$82 million out of which more than \$20 million was paid in dividends to shareholders. The challenge of the next decade is to continue these upward trends in all phases of the Company's operations.

between 98¢ and 99¢ U.S. As a result of this, the Company has been able to save approximately \$400,000 in 1970 and, in 1971, will effect savings of \$800,000 on principal and interest payments totalling approximately \$13.5 million which are payable in U.S. funds.

Income Tax

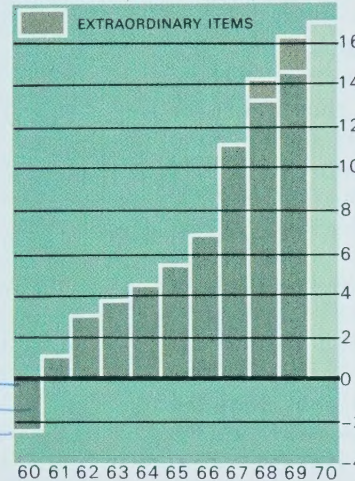
The provision of \$274,000 for income tax in 1970 relates to Canadian and foreign income taxes payable by small subsidiaries of the Company. No provisions for income tax were necessary for the Company or its principal subsidiaries, Bailey Selburn Oil & Gas Ltd. and Western Natural Gas Company Inc. Note 8 to the Financial Statements states that for Canadian federal income tax purposes, the companies are entitled to claim drilling, exploration and lease acquisition costs and depreciation in amounts which exceed the related depletion and depreciation reflected in the accounts. At the 1970 year-end, the balance of such expenditures, which may be carried forward and offset against future income, was \$89,500,000 for drilling, exploration, lease acquisition and other intangible costs, and \$68,000,000 for depreciable assets. It is estimated that these amounts, augmented by future expenditures, will be sufficient to liquidate income tax liabilities for a period of at least six years.

It is also stated in Note 8 to the Financial Statements that the Company takes the position that tax allocation accounting is not appropriate in the oil and gas industry. Accordingly, no provision has been made for deferred income taxes on timing differences between depletion and depreciation reflected in the accounts and the amounts claimed for income tax purposes.

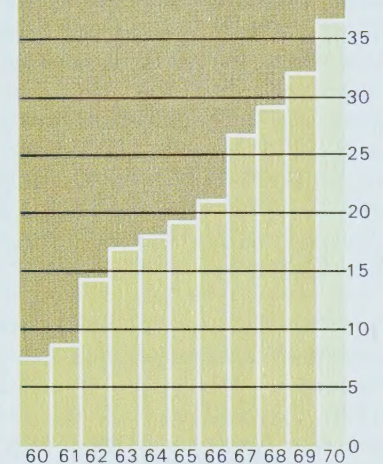
Tax Reform

During 1970, the Canadian Government proposals for income tax reform were reviewed by various Parliamentary committees and recommendations were submitted to the Minister of Finance. A tax reform bill is to be introduced in Parliament in the Spring of 1971 and it is anticipated that its provisions will become effective by January 1, 1972.

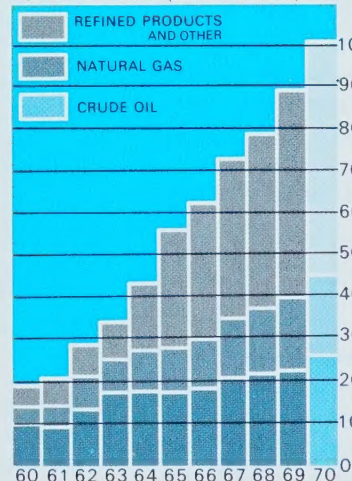
NET PROFIT (Millions of Dollars)



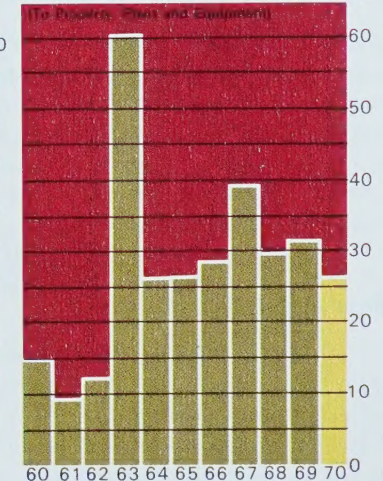
CASH GENERATED FROM OPERATIONS (Millions of Dollars)



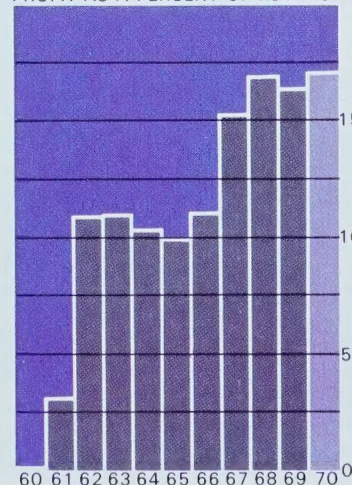
TOTAL REVENUE (Millions of Dollars)



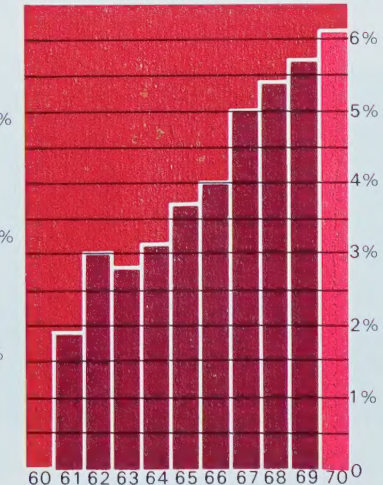
CAPITAL EXPENDITURES (Millions of Dollars)



PROFIT AS A PERCENT OF REVENUE



RETURN ON CAPITAL EMPLOYED



EXPLORATION AND DEVELOPMENT

Expenditures for Pacific's exploration and development program in 1970 totalled \$23,500,000. This was \$1,800,000 or 8% less than the amount spent in this area of operations in 1969. In most phases of the program, such as exploratory and development drilling, geophysical work, and new production facilities, 1970 outlays were higher than in 1969. However, the total was reduced by the fact that acreage acquisition investment in 1970 was \$4,900,000 lower than in the previous year.

The Company's 1970 drilling operations and their results are tabulated in the Drilling Record on this page. It will be seen that the 1970 schedule was of the same order as the previous year but that the success ratios achieved in 1970 were higher than in 1969.

In the past year, 75% of the wells in the overall program and 41% in the category of exploratory drilling were successful oil or gas wells. These results compare respectively with ratios of 67% and 38% in 1969. In 1970, as in prior years, Pacific's success ratios were ahead of those in the Canadian petroleum industry as a whole.

Production Growth

As a result of the successful exploration and development program and the increasing market demand for both crude oil and natural gas, Pacific again recorded excellent production gains in both of these areas. As indicated on the charts below, oil and liquids production increased by more than 5,500 barrels to a daily

DRILLING RECORD

EXPLORATORY

	1966	1967	1968	1969	1970
Gross Wells					
Oil	5	8	5	3	2
Gas	17	7	13	11	12
Dry Holes . .	45	23	32	24	20
Total	67	38	50	38	34
Net Wells					
Oil	2	5	3	1	1
Gas	9	5	8	5	7
Dry Holes . .	24	13	22	12	13
Total	35	23	33	18	21

DEVELOPMENT

Gross Wells					
Oil	89	43	45	37	48
Gas	47	34	32	21	18
Dry Holes . .	8	17	9	11	6
Total	144	94	86	69	72
Net Wells					
Oil	29	22	33	7	9
Gas	22	13	11	9	9
Dry Holes . .	3	9	4	3	2
Total	54	44	48	19	20

TOTALS:

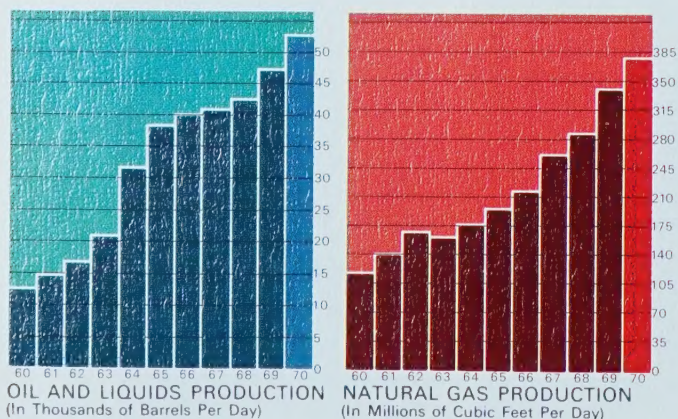
Gross Wells . .	211	132	136	107	106
Net Wells . . .	89	67	81	37	41

rate of 52,700 barrels. Natural gas output reached an average of 377 million cubic feet per day, up 11% over 1969.

Drilling Results

Among the more significant drilling results of the past year was a major natural gas discovery in the Grassy Creek area of British Columbia, 100 miles northwest of Fort St. John. The successful exploratory well encountered 588 feet of gross pay in the Debolt formation and, on test, its absolute open flow was recorded at 162 million cubic feet per day. Pacific has an average interest of 45% in 18,827 gross acres in the discovery area.

Another substantial gas discovery was made by Pacific in the Yoyo field which is shown on the adjoining map of the Fort Nelson area. This discovery was made when an existing well

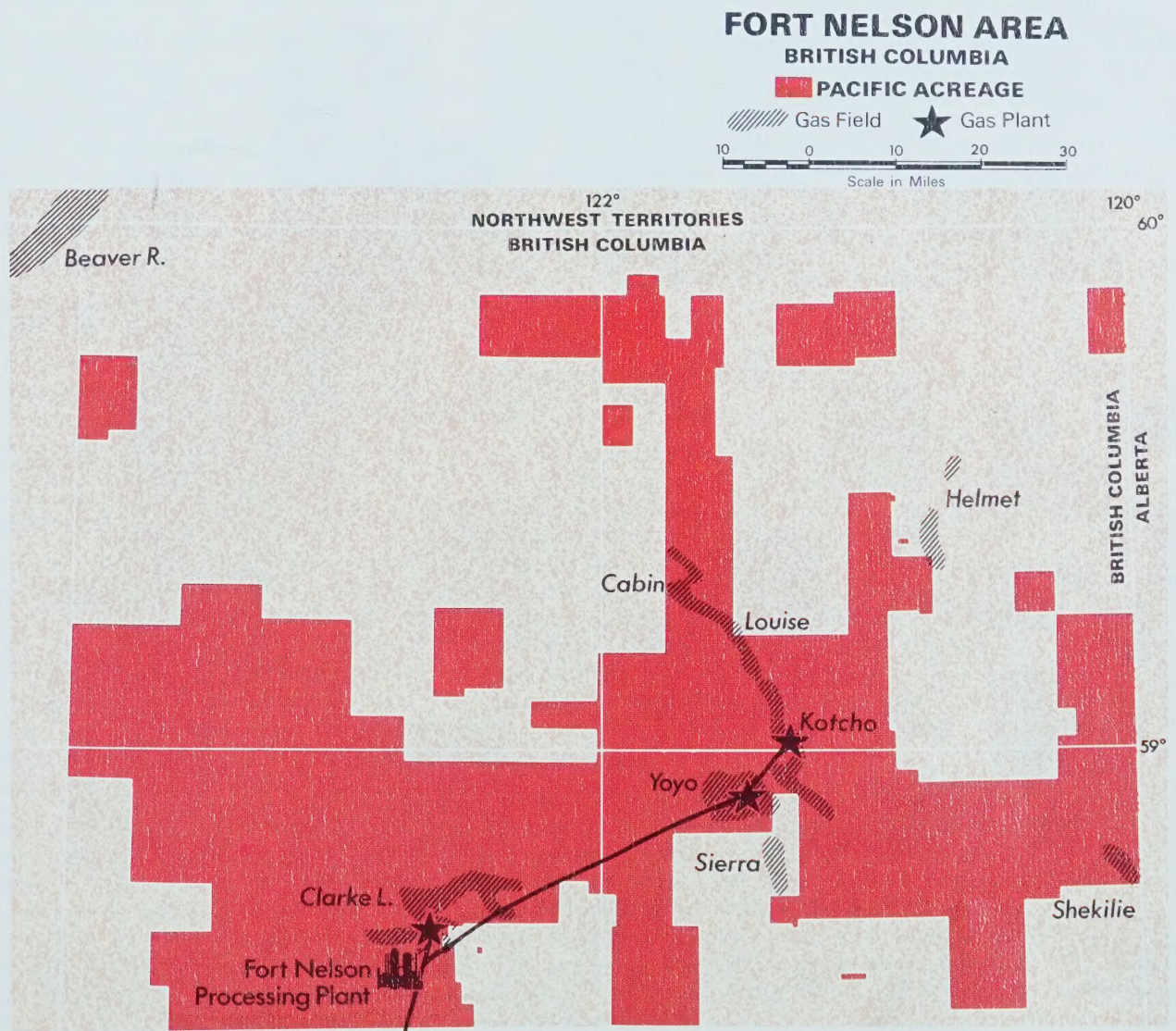


which had found gas pay in the Slave Point formation was deepened and encountered more than 100 feet of additional pay in the Slave Point as well as 86 feet of pay in the Elk Point. Pacific has a 100% interest in 13,800 acres in the Yoyo area.

Because of the increasing demand for natural gas in both domestic and export markets, exploration and development work is being greatly intensified throughout the Fort Nelson region. Pacific, as one of the largest land-holders in this gas-prone area, is in the forefront of this activity. Development wells were completed

in 1970 in the Louise and Kotcho areas and, in the current winter drilling season, the Company is active in the Clarke Lake, Kotcho, Yoyo, Shekilie and Helmet areas.

Pacific has also been active in the past year in exploration and development of additional gas supplies in the Province of Alberta. This work resulted in a significant discovery in the Hartell area of southwestern Alberta, which lies six miles to the south of the Black Diamond field which Pacific discovered two years ago. The Hartell discovery well had an absolute open flow of 24 million cubic feet per day. Deliveries



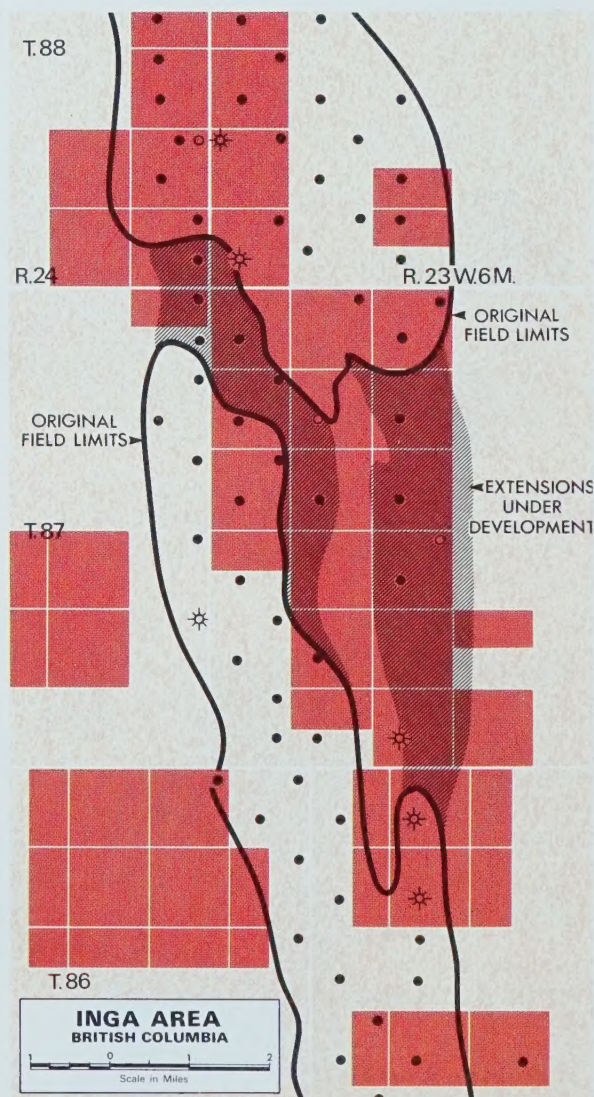
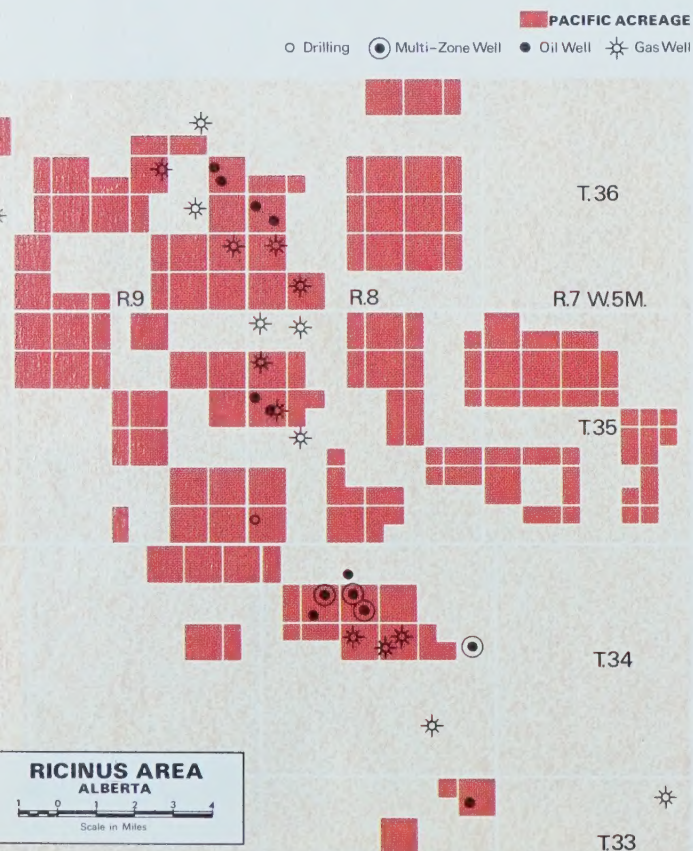
to TransCanada PipeLines are scheduled to begin in November, 1971.

In 1970, as in 1969, Pacific continued an intensive exploration and development program in the Ricinus area of west-central Alberta as shown on the accompanying map. Seven gas wells and 14 oil wells have been drilled on Pacific acreage in this area. The oil wells already are in production while gas deliveries to the TransCanada pipeline system are scheduled to begin in the fall of 1971. Several wells are currently drilling in this area and a number of sites remain to be developed before the gas reserves and the initial rate of deliveries can be determined. Another factor which will influence initial production rates in the Ricinus field will be the capacity and operation of the gas processing plants which are currently under construction or planned in this area.

One of the most significant well completions of the year was in the Inga oilfield of north-

eastern British Columbia. A successful stepout well in this area led to extension of the known limits of the productive Inga field on to lease blocks in which Pacific holds a 49% interest. It is estimated that these enlargements of the field area (see map), on which ten productive wells already have been completed, have added more than 4,000,000 barrels of oil to Pacific's ultimate recoverable reserves.

Three additional gas wells were completed during 1970 on Pacific's acreage in the Whitecourt area of Alberta. Two of these were dual zone wells, producing from the Nordegg and



Pekisko formations. The third was a Pekisko completion. The Company's Whitecourt properties were connected to the TransCanada system during the past year and produced an average of 19 million cubic feet per day.

Arctic Exploration

Arrangements have been completed to drill the first exploratory well on Pacific's extensive acreage in the Canadian Arctic (see map). The well is scheduled to be spudded in August this year and the entire cost of the venture, amounting to about \$4,000,000, will be borne by a major international company in return for a 50% interest in the Graham Island property.

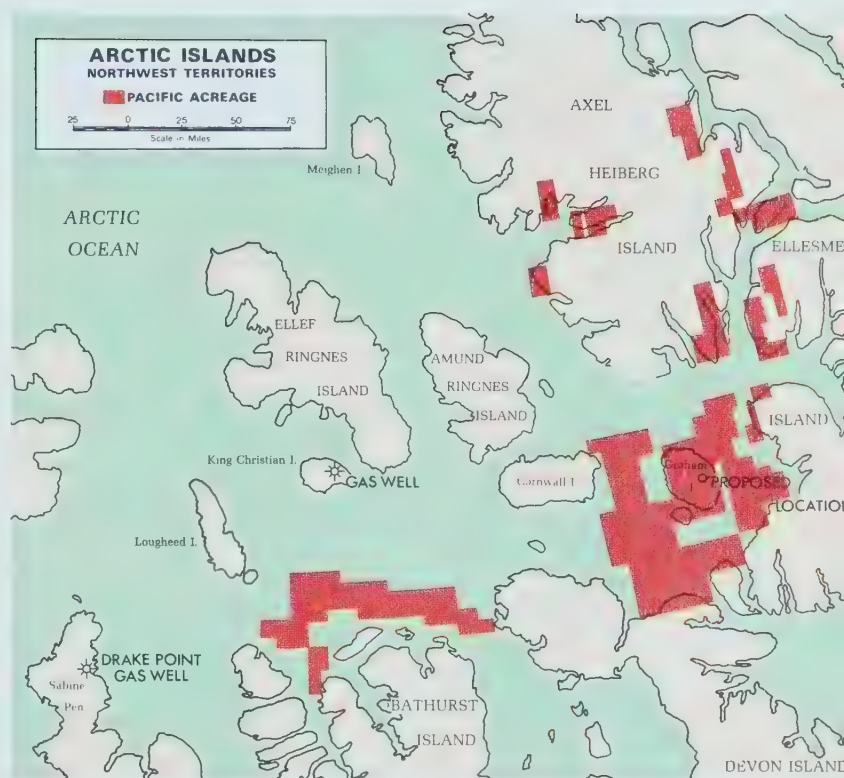
In 1970, preliminary exploration work was done on Pacific acreage on Ellesmere and Axel Heiberg Islands. The Company's first Arctic geological party operated for two and a half months in this area and, despite abnormally bad spring weather and snow conditions, the 14-man group attained most of its objectives in studying the structural and stratigraphic prospects of these Pacific holdings.

In the latter part of 1970, a major natural gas discovery was made on King Christian Island which lies to the north and west of large blocks of Company acreage. Several more exploratory wells are scheduled to be drilled in this general area during the current year.

Mineral Exploration

The Company's mineral exploration program in 1970 continued on the scale of the two previous years, with a capital commitment of approximately \$400,000. During the past year a number of prospects were examined and of these the most promising appeared to be a coal deposit in the Savanna Creek area of southwestern Alberta and a high-grade copper showing in the Gataga River area of British Columbia.

The Savanna Creek coal lands, which cover 22,400 acres, were explored by surface trenching and rotary drilling during the past year. This work indicated substantial underground reserves as well as surface reserves of some 18 million tons of clean, marketable coal which would be extractable by open-pit mining. These reserves contain coking coal. Bulk samples are



now being evaluated to establish quality and economic viability.

The Gataga River copper prospect, consisting of 86 claims, is in northeastern British Columbia, approximately 25 miles south of the producing Churchill copper mine. Trenching was done on three zones of the claim group during the past year and preliminary sampling gave assays of ore averaging as high as 8.4% copper over strike lengths of up to 350 feet. Additional work will be done this year to determine the potential of these high-grade veins.

Land Holdings

The 1970 program of exploration and development drilling increased the Company's net proven acreage to 442,000 acres, a 12% increase over the 1969 total. During the past year, 482,000 gross acres (324,000 net acres) were added to the land inventory, and at the 1970 year-end, Pacific's land holdings totalled 17,375,000 acres, of which 8,667,000 were net to the Company.

MANUFACTURING

During the past year the Company's Manufacturing Department produced record volumes of natural gas liquids, gasolines and other refined and manufactured petroleum products. The total volume of these products from the Empress gas processing plant and the Company's refinery at Taylor, B.C., was 35,174 barrels per day, a 12% increase over the 31,409 barrels per day produced in 1969.

Natural Gas Processing

The throughput of the Empress Plant, which processes the main gas stream of TransCanada PipeLines, averaged 1.8 billion cubic feet per day in 1970 as compared to 1.5 billion cubic feet per day in the previous year. From this flow of raw gas, the Empress Plant processed 8,065,000 barrels of liquids, an average of 22,096 barrels per day. This compared with an output of 7,150,000 barrels, or an average of 19,588 barrels per day in 1969.

As a result of the greater Empress production, there was a 13% increase in deliveries via

On January 16, 1970, Pacific's Empress Plant produced 29,940 barrels of natural gas liquids, setting a new record for a single day's production. On March 29, 1970, a new record for a single day's throughput was established when the plant processed 2.1 billion cubic feet of gas.



the Company's wholly-owned LPG pipeline from Empress to Winnipeg. An additional pumping station was constructed on the line at Manson, Manitoba, and this increased the flow of product into the Winnipeg terminal. The line's throughput in 1970 averaged 14,769 barrels per day, compared with a rate of 13,013 in the previous year.

The Company's tank car fleet has also been enlarged to handle the increased LPG production. The fleet now consists of 422 jumbo cars, with 50 units being added during the past year. This fleet, the largest of its kind in Canada, delivers approximately 40% of total LPG sales.

Oil Refining

Several units of the Company's refinery at Taylor, B.C. were expanded during the past year which increased the total process charge capacity of the plant to 17,800 barrels per day. With these new facilities coming into use, the plant's actual output was increased from a 1969 average of 11,821 barrels per day to a rate of 13,078 barrels per day in 1970.

Safety Program

The safety program conducted by the Company in its manufacturing operations was notably successful in 1970 in the prevention of industrial accidents. Both the Taylor refinery and the Empress gas processing plant were entirely free of lost time injuries throughout the year.

For its achievement in completing 865,386 man hours without a lost-time injury, Pacific's refinery was recently given the highest safety award of the Canadian Natural Gas Processors Association. This is the second consecutive year that the award has been won by this plant and the second consecutive year that its employees have compiled a perfect safety record.

The Pacific refinery has won this major safety award five times in recent years. A total of 23 companies and 56 plants are engaged in the competition for this trophy.

The Empress plant also won a C.N.G.P.A. citation for safety achievement, having completed 144,000 man hours without a lost time accident in 1970. This plant has now gone more than three years without a lost-time injury.

SALES

Significant gains were recorded during 1970 in both the volume and revenues of the Company's refined product sales. The volume of these sales increased 17% over the previous year and the revenues derived from them rose 18% to a total of \$50,350,000, an increase of \$7,700,000 over the 1969 figure.

Gasoline Marketing

A major contribution to the year's sales growth was made by the Pacific 66 marketing system, which operates principally in the four western provinces of Canada. The Company's sales volumes of gasoline and distillate products were up 12% over 1969, compared to an industry-wide growth rate of 4% in this market area.

During the year, the Company accelerated the expansion of its marketing system, adding 29 new units to attain a total of 385 retail and wholesale outlets at the 1970 year-end. In a large proportion of these new outlets, an automated car wash installation is combined with service station facilities. These convenient installations have proved to be highly attractive to the motoring public and it is the Company's intention to continue building them wherever suitable sites can be found.

Natural Gas Liquids

Market demand and prices for natural gas liquids improved steadily through the past year with the result that Pacific recorded a 21% increase in NGL sales volume and a 25% increase in revenues from these products.

The most favorable trends occurred in the market for propane. Demand for this product was such that by September, 1970, the Company had pre-sold all the propane production from its Empress Plant for the next six months. As demand increased, propane prices rose and, in the last quarter of 1970, they were more than 25%, or approximately 2¢ per gallon, above the prevailing levels of 1969.

While sales and prices of other natural gas liquids did not advance as dramatically as those of propane, market conditions for normal butane, iso-butane and natural gasoline strengthened markedly in the second half of the year with the result that sales of all these products reached record levels.

Over the year, the gradual price improvement for the various liquids combined with the increase in sales volume, raised the Company's NGL sales revenue to more than \$16,800,000, a gain of \$3,400,000 over the 1969 total.

Plastics

The unpegging of the Canadian dollar early in 1970 weakened the position of the Canadian plastics distributors in meeting the competition of U.S. imports. As a result, the Canadian industry experienced its worst year in a decade with many companies reporting substantial sales declines. Pacific's polyethylene sales were up 3% to a total of 11.3 million pounds but, due to weakened prices, revenues were down approximately \$100,000 below those of 1969.

Sales at Pacific 66 service stations were increased during the past year by good public response to the new "We Care" advertising theme and as a result of a promotion program through which Pacific customers earned certificates for discount purchases of appliances and other goods.



PACIFIC PETROLEUMS LTD. and subsidiary companies

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 1970 and 1969 (Canadian Dollars)

	NET ASSETS	
	1970	1969
CURRENT ASSETS		
Cash	\$ 1,479,000	\$ 1,498,000
Short term deposits		1,000,000
Accounts receivable	20,955,000	17,574,000
Inventories at the lower of cost or replacement cost		
Crude oil, refined products and merchandise	4,698,000	4,802,000
Material and supplies	1,452,000	1,374,000
	<u>28,584,000</u>	<u>26,248,000</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	9,751,000	8,454,000
Short term promissory notes	3,000,000	
Long term debt due within one year	11,630,000	10,963,000
	<u>24,381,000</u>	<u>19,417,000</u>
WORKING CAPITAL	4,203,000	6,831,000
INVESTMENTS		
Westcoast Transmission Company Limited shares at cost (quoted market value 1970 — 1,838,682 shares \$37,690,000; 1969 — 1,500,000 shares \$35,250,000) (Notes 4 and 6)	17,599,000	10,339,000
Other investments at cost	2,918,000	3,316,000
PROPERTY, PLANT AND EQUIPMENT—NET (Note 2)	362,632,000	356,001,000
OTHER ASSETS (Note 3)	7,862,000	11,556,000
TOTAL ASSETS LESS CURRENT LIABILITIES	395,214,000	388,043,000
LONG TERM DEBT (Note 5)	113,355,000	124,317,000
NET ASSETS	\$ 281,859,000	\$ 263,726,000
Commitments and contingencies (Note 6)		

SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 4)		
Authorized — 30,000,000 shares - par value \$1.00		
Issued — 21,243,575 shares (1969 — 20,949,245)	\$ 21,244,000	\$ 20,949,000
PAID-IN SURPLUS (Note 4)	206,779,000	199,529,000
RETAINED EARNINGS	53,836,000	43,248,000
SHAREHOLDERS' EQUITY	\$ 281,859,000	\$ 263,726,000

(see accompanying notes)

ON BEHALF OF THE BOARD



Director:



Director:

PACIFIC PETROLEUMS LTD. and subsidiary companies

CONSOLIDATED STATEMENT OF OPERATIONS

Years ended December 31, 1970 and 1969 (Canadian Dollars)

	1970	1969
REVENUE:		
Sales of crude oil, gas and refined products	\$ 98,947,000	\$ 87,154,000
Dividend and interest income	1,383,000	1,301,000
	<u>100,330,000</u>	<u>88,455,000</u>
EXPENSES:		
Product and merchandise purchases	28,652,000	23,521,000
Producing, refining and selling expenses	23,898,000	22,187,000
General and administrative expenses	3,493,000	2,704,000
Interest on long term debt	7,514,000	8,035,000
Income taxes (Note 8)	274,000	150,000
	<u>63,831,000</u>	<u>56,597,000</u>
CASH GENERATED FROM OPERATIONS (per share, 1970 — \$1.73; 1969 — \$1.52)	<u>36,499,000</u>	<u>31,858,000</u>
Depletion	12,121,000	11,278,000
Depreciation	7,079,000	5,630,000
Amortization of debt discount and expenses	338,000	386,000
	<u>19,538,000</u>	<u>17,294,000</u>
NET PROFIT before extraordinary items (per share, 1970 — \$.80; 1969 — \$.70)	16,961,000	14,564,000
Extraordinary items (Note 9)		1,694,000
NET PROFIT for the year (Note 8) (per share, 1970 — \$.80; 1969 — \$.78)	<u>\$ 16,961,000</u>	<u>\$ 16,258,000</u>

(see accompanying notes)

PACIFIC PETROLEUMS LTD. and subsidiary companies

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years ended December 31, 1970 and 1969 (Canadian Dollars)

	1970	1969
Retained earnings at beginning of year	\$ 43,248,000	\$ 32,947,000
Net profit for the year	16,961,000	16,258,000
	<u>60,209,000</u>	<u>49,205,000</u>
Dividend paid— (per share, 1970 — \$.30; 1969 — \$.25) . . .	6,373,000	5,237,000
Provision for litigation claims and expenses . . .		720,000
	<u>6,373,000</u>	<u>5,957,000</u>
Retained earnings at end of year	<u>\$ 53,836,000</u>	<u>\$ 43,248,000</u>

CONSOLIDATED STATEMENT OF FUNDS

Years ended December 31, 1970 and 1969 (Canadian Dollars)

	1970	1969
Funds provided by:		
Cash generated from operations	\$ 36,499,000	\$ 31,858,000
Sale of investments	153,000	6,401,000
Long term borrowing	4,415,000	3,684,000
Sale of property, plant and equipment	3,829,000	8,428,000
Issue of shares	7,545,000	154,000
	<u>52,441,000</u>	<u>50,525,000</u>
Funds applied to:		
Additions to property, plant and equipment including exploration and development . . .	26,006,000	31,575,000
Reductions of long term debt	15,377,000	14,208,000
Payment of dividend	6,373,000	5,237,000
Purchase of investments	7,313,000	272,000
	<u>55,069,000</u>	<u>51,292,000</u>
Net decrease in working capital	2,628,000	767,000
Working capital at beginning of year	6,831,000	7,598,000
Working capital at end of year	<u>\$ 4,203,000</u>	<u>\$ 6,831,000</u>

(see accompanying notes)

NOTES TO FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION

Included in the consolidated statements are the accounts of Pacific Petroleum Ltd. and its subsidiaries. The excess of the consideration paid for the shares of subsidiaries over the net book value of the related assets at dates of acquisition is attributable to property, plant and equipment and is included therein in the accompanying consolidated statement of financial position. The excess consideration is being amortized over the estimated useful life of the related assets.

2. PROPERTY, PLANT AND EQUIPMENT

Investment at cost	1970	1969
Crude oil and natural gas	\$ 422,402,000	\$ 401,494,000
Manufacturing	57,731,000	56,546,000
Transmission	10,521,000	10,521,000
Marketing	21,094,000	19,552,000
Other	8,187,000	7,378,000
	<u>519,935,000</u>	<u>495,491,000</u>
Depletion	112,800,000	100,956,000
Depreciation	44,503,000	38,534,000
	<u>157,303,000</u>	<u>139,490,000</u>
Property, plant and equipment — net	<u>\$ 362,632,000</u>	<u>\$ 356,001,000</u>

The companies follow the practice of capitalizing all costs related to the exploration for and development of oil and gas reserves and depleting such costs by a composite unit-of-production method based on total estimated reserves. In accordance with this practice the total proceeds from disposal of certain non-producing properties during 1970 and 1969 were credited to crude oil and natural gas properties.

3. OTHER ASSETS

	1970	1969
Payments under natural gas processing contract less amortization	\$ 3,230,000	\$ 4,086,000
Work in progress at cost	1,317,000	3,332,000
Deferred debt discount and expenses less amortization	876,000	1,830,000
Secured loans and deferred accounts receivable, etc.	2,439,000	2,308,000
	<u>\$ 7,862,000</u>	<u>\$ 11,556,000</u>

4. SHARE CAPITAL

During the year the Company issued 294,330 shares for a consideration of \$7,545,000 as follows: 3,484 shares to employees under a share purchase plan, 19,900 shares to directors, officers and employees upon exercise of share options and 270,946 shares in exchange for shares of Westcoast Transmission Company Limited. Of the total consideration \$295,000 was credited to share capital account and the balance, \$7,250,000, to paid-in surplus.

During the year options to purchase 9,000 shares were granted to employees and options to former officers and employees to purchase 3,900 shares were cancelled.

NOTES TO FINANCIAL STATEMENTS (Cont.)

Options issued to directors and officers to purchase 36,400 shares and to employees to purchase 33,700 shares from time to time to April 21, 1980 at prices ranging from \$12.00 to \$32.75 per share were outstanding at December 31, 1970. In addition 170,487 shares were reserved for granting of options to officers and employees under share purchase plans and 150,000 shares were reserved for issuance under an Employees' Thrift Plan inaugurated September 1, 1970.

5. LONG TERM DEBT

Long term debt due after one year consists of the following:

	Maturity Date	1970	1969
7½ % Bank Loans	1975	\$ 5,796,000	\$ 8,355,000
5 % Subordinate Debentures	1977	7,923,000 (\$ 8,260,000 U.S.)	8,483,000
5½ % Secured Notes . . .	1978	22,620,000 (21,000,000 U.S.)	25,313,000
6½ % Secured Notes . . .	1982	8,816,000 (8,177,000 U.S.)	9,678,000
5¼ % Notes	1985	61,702,000 (57,200,000 U.S.)	65,908,000
6¼ - 6¾ % Mortgages . .	1988	4,349,000	4,347,000
Sundry Notes and Mortgages		2,149,000	2,233,000
		<u>\$ 113,355,000</u>	<u>\$ 124,317,000</u>

All of the above are subject to annual repayment or sinking fund provisions.

Long term obligations which are payable in United States funds are recorded in the accounts in equivalent Canadian dollars on the date the funds were borrowed. The current portion of such obligations at December 31, 1970 has been converted to Canadian dollars based on the exchange rate in effect on that date. Sinking fund requirements or retirement provisions in respect of long term debt are \$12,121,000 in 1972, \$10,266,000 in 1973, \$9,380,000 in 1974 and \$8,681,000 in 1975.

6. COMMITMENTS AND CONTINGENCIES

Various legal actions are in process involving the companies. While it is impossible to ascertain the outcome of these actions, it is anticipated that any losses which may result will not be material in relation to the companies' total assets.

The companies in the normal course of business have entered into long term agreements to lease marketing properties and office buildings. Such leases have rentals payable in 1971 of approximately \$1,880,000 of which approximately \$700,000 is estimated to be recoverable under sub leases.

During 1969 the Company sold 222,712 shares of Westcoast Transmission Company Limited, to Phillips Investment Company. The agreement covering the sale of the shares provides that during the period from April 15, 1971 to April 15, 1973, Phillips may require Pacific to repurchase all or part of such shares at a price equal to quoted market value of the stock on the date of sale less \$1.00 per share.

7. DIRECTORS' AND SENIOR OFFICERS' REMUNERATION

The total remuneration paid during the year to the directors and senior officers of the Company, including all salaries, fees and contributions to pension funds, amounted to \$265,000 (1969 — \$253,000).

8. INCOME TAXES

Canadian and foreign income taxes payable by subsidiaries of the Company have been provided in the accounts.

For Canadian federal income tax purposes the companies are entitled to claim drilling, exploration and lease acquisition costs (intangible costs) and capital cost allowances (depreciation) in amounts which exceed the related depletion and depreciation provisions reflected in the accounts. As a result no Canadian income taxes are payable by the Company or by those subsidiaries which are involved in the exploration for and development of oil and gas reserves in respect of income for 1970 and 1969, and at December 31, 1970 accumulated expenditures remain to be carried forward and applied against future taxable income as follows:

Drilling, exploration and lease acquisition costs	\$ 89,500,000 (1969 — \$ 92,500,000)
Undepreciated capital cost	\$ 68,000,000 (1969 — \$ 74,000,000)

The Company believes that tax allocation accounting as recommended by the Canadian Institute of Chartered Accountants is not appropriate in the oil and gas industry and accordingly no provision has been made for deferred taxes on timing differences. If the tax allocation basis had been followed, deferred income taxes would have been provided in 1970 in the amount of \$7,000,000 (\$.33 per share) and in 1969 in the amount of \$5,700,000 (\$.27 per share) and net profit for those years would have been reduced accordingly. Of the foregoing, \$3,450,000 (\$.16 per share) in 1970 is in respect of depreciable assets.

The accumulated income tax reductions relating to all timing differences in the current and prior years amounted to \$41,900,000 at December 31, 1970 and \$34,900,000 at December 31, 1969.

9. EXTRAORDINARY ITEMS

The extraordinary items recorded during 1969 are made up of the following:

Profit on sale of shares of Westcoast Transmission Company Limited	\$ 4,830,000
Loss on disposal of abandoned refining facilities	(1,505,000)
Provision for loss on investment in certain marginal marketing and manufacturing facilities	(1,631,000)
	<u>\$ 1,694,000</u>

AUDITORS' REPORT

To the Shareholders of Pacific Petroleum Ltd.

We have examined the consolidated statement of financial position of Pacific Petroleum Ltd. and subsidiary companies as at December 31, 1970 and the consolidated statements of operations, retained earnings and funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, except that no provision has been made for deferred income taxes in respect of depreciable assets as explained in Note 8, these consolidated financial statements present fairly the financial position of Pacific Petroleum Ltd. and subsidiary companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
February 1, 1971

CLARKSON, GORDON & CO.,
Chartered Accountants

TEN YEAR STATISTICAL RECORD

10 Months
Ended
Dec. 31

Years Ended December 31

1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
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FINANCIAL

(In Thousands of Canadian Dollars Except Per Share Figures)

Cash Generated from Operations	\$ 36,499	\$ 31,858	\$ 29,029	\$ 26,626	\$ 20,982	\$ 19,028	\$ 17,757	\$ 16,775	\$ 14,143	\$ 8,544
Depletion, Depreciation and similar charges	19,538	17,294	15,822	15,616	14,156	13,302	12,549	12,303	11,108	7,527
Net Operating Profit	\$ 16,961	\$ 14,564	\$ 13,207	\$ 11,010	\$ 6,826	\$ 5,726	\$ 5,208	\$ 4,472	\$ 3,035	\$ 1,017
Minority Interest	—	—	—	—	—	266	788	788	—	—
Extraordinary Items	—	1,694	923	—	—	—	—	—	—	—
Net Profit	\$ 16,961	\$ 16,258	\$ 14,130	\$ 11,010	\$ 6,826	\$ 5,460	\$ 4,420	\$ 3,684	\$ 3,035	\$ 1,017
Per Share:										
Cash Generated from Operations	\$ 1.73	\$ 1.52	\$ 1.39	\$ 1.27	\$ 1.00	\$.91	\$.85	\$.81	\$.80	\$.57
Net Operating Profit	.80	.70	.63	.53	.33	.26	.21	.18	.17	.07
Net Assets before Long Term Debt	18.57	18.52	18.50	18.02	16.88	16.59	14.76	13.80	12.55	12.33
Shareholders' Equity	13.27	12.59	12.10	11.67	11.29	10.96	10.70	10.49	10.05	9.12
Total Net Sales:										
Crude Oil	\$ 25,471	\$ 22,155	\$ 21,171	\$ 20,285	\$ 18,220	\$ 17,329	\$ 17,475	\$ 16,948	\$ 13,183	\$ 9,616
Natural Gas	18,651	17,307	15,555	13,860	11,362	10,457	9,357	7,989	7,506	4,568
Refined Products	50,351	42,624	36,817	33,769	28,666	23,872	14,722	8,570	7,207	6,019
Other	4,474	5,068	3,685	3,637	3,309	3,073	884	—	—	—
TOTAL	\$ 98,947	\$ 87,154	\$ 77,228	\$ 71,551	\$ 61,557	\$ 54,731	\$ 42,438	\$ 33,507	\$ 27,896	\$ 20,203
Working Capital	\$ 4,203	\$ 6,831	\$ 7,598	\$ 8,675	\$ 8,317	\$ 16,958	\$ 3,714	\$ 3,390	\$ 3,323	\$ 1,646
Capital Expenditures	\$ 26,006	\$ 31,575	\$ 29,728	\$ 38,855	\$ 28,170	\$ 25,854	\$ 25,802	\$ 60,305	\$ 11,959	\$ 9,051
Net Assets before Long Term Debt	\$395,214	\$388,043	\$387,456	\$376,921	\$352,158	\$346,102	\$307,375	\$286,912	\$222,803	\$183,718
Number of Shares Issued (000's)	21,243	20,949	20,939	20,911	20,868	20,857	20,831	20,802	17,759	14,906
Number of Shareholders	42,747	41,907	42,673	41,128	39,250	38,814	39,200	33,709	30,919	30,259

OPERATIONS

Daily Production										
Oil and Liquids (bbls)	52,700	47,100	42,200	40,700	39,800	38,200	31,400	20,600	16,700	14,600
Natural Gas (mcf)	377,000	341,000	285,000	259,000	216,000	194,000	175,000	159,000	166,000	139,000
Crude Oil Refined (bbls)	11,053	10,143	9,017	8,537	7,403	6,360	5,183	3,250	3,940	2,676
Net Acreage (000's)										
Total	8,667	8,343	10,408	7,982	7,874	6,365	5,384	4,941	3,999	4,606
Arctic and N.W.T.	4,521	4,163	6,099	3,079	2,736	1,145	—	—	—	—
Proven Acreage	442	394	372	371	339	254	232	213	179	158
Sales Volumes (Million gals)										
Gasolines and Distillates	148	132	108	89	89	77	69	52	38	38
Natural Gas Liquids	364	302	257	262	255	196	99	39	36	22
Number of Employees	907	890	848	798	743	688	606	520	370	400

PACIFIC PETROLEUMS LTD.

Incorporated Under the Laws of the Province of British Columbia

Directors

JOHN L. FARRIS, Q.C.
Barrister and Solicitor
Vancouver, B.C.

KELLY H. GIBSON
Chairman of the Board
Pacific Petroleum Ltd.
Calgary, Alberta

JOHN M. HOUCHIN
President
Phillips Petroleum Company
Bartlesville, Oklahoma

ARTHUR F. MAYNE
Financial Consultant
Montreal, Quebec

L. MERRILL RASMUSSEN
President
Pacific Petroleum Ltd.
Calgary, Alberta

W. A. ROBERTS
Senior Vice President
Phillips Petroleum Company
Bartlesville, Oklahoma

W. H. TYE
Vice President and Treasurer
Pacific Petroleum Ltd.
Calgary, Alberta

COLIN WEBSTER
Industrialist
Montreal, Quebec

Principal Subsidiaries

Bailey Selburn Oil & Gas Ltd.
Pacific Petroleum (Quebec) Ltd.
Petroleum Transmission Company
Quebec Propane Inc.
Western Natural Gas Company, Inc.
Midland Industries Limited
Venezuelan Canadian Oils, C.A. (Venezuela)
Venezuelan Pacific Petroleum, C.A.
(Venezuela)

Exchange Listings

New York, Toronto, Montreal, Vancouver,
Calgary and Pacific Coast
Stock Exchanges

Officers and Executives

KELLY H. GIBSON *
Chairman and Chief Executive Officer

L. MERRILL RASMUSSEN *
President

W. H. TYE *
Vice President and Treasurer

A. M. McINTOSH
Vice President - Production

G. W. LADE
Chief Legal Advisor and Secretary

F. A. BALDWIN
Manager - Finance and Administration

S. D. LATHROP
Manager - LPG and Supply &
Transportation

T. L. McASTOCKER
Controller

J. C. SCOTT
Director - Exploration

W. SIDJAK
Manager - Special Projects

H. W. STEVENS
Manager - Employee Relations

R. H. STONE
Manager - Manufacturing

V. G. SUNDSTROM
Manager - Sales

* Member of Executive Committee

Executive Office

700 - 6th Avenue S.W.,
P.O. Box 6666,
Calgary 2, Alberta, Canada.

Registered Office

15th Floor,
1333 West Georgia Street,
Vancouver 5, B.C., Canada

Executive Changes

Kelly H. Gibson, President of the Company since May 1, 1964, was elected Chairman of the Board on July 27, 1970. Mr. Gibson continues as Chief Executive Officer.

L. Merrill Rasmussen, an executive of Pacific for the past 11 years and Executive Vice President since April, 1969, was elected President of the Company on July 27, 1970.

Gordon W. Lade, Manager of the Law Department since 1963, was elected Secretary of the Company on April 21, 1970. On November 1, 1970, Mr. Lade was also appointed Chief Legal Advisor.

John Anderson, a Director, Vice President and General Counsel of the Company, resigned from these offices on November 5, 1970, upon accepting appointments with Westcoast Transmission Company Limited.

Transfer Agents

SHARES

Montreal Trust Company
Vancouver, Calgary, Toronto and Montreal
The Chase Manhattan Bank, N.A.
New York, New York
Bank of America National Trust
and Savings Association
Los Angeles, California

DEBENTURES

Canada Permanent Trust Company
Toronto and Vancouver
Bankers Trust Company
New York, New York

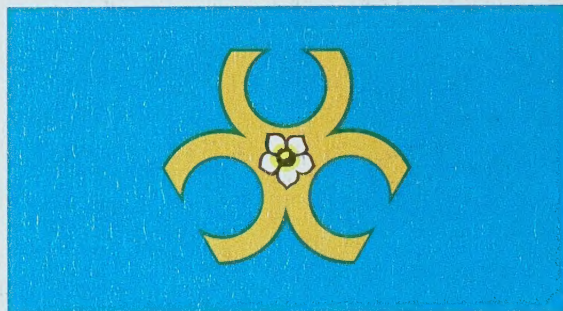
Registrars

SHARES

National Trust Company, Limited
Vancouver, Calgary, Toronto and Montreal
Manufacturers Hanover Trust Company
New York, New York
Security Pacific National Bank
Los Angeles, California

DEBENTURES

Canada Permanent Trust Company
Toronto and Vancouver
Bankers Trust Company
New York, New York



This Centennial Flag is being flown throughout British Columbia during the current year as the Province marks the 100th anniversary of its entry into Canadian Confederation. Pacific is a full participant in the Centennial celebration, being a British Columbia corporation and one of the largest land-holders, producers and employers in the Province's petroleum industry. As part of its Centennial observance, the Company will hold this year's Annual Meeting of Shareholders in British Columbia. The meeting will be at 10 a.m., April 20, at the Hotel Vancouver, Vancouver, B.C.



PACIFIC PETROLEUMS LTD. P.O. BOX 6666 - CALGARY, ALBERTA